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FISCAL IMPACT STATEMENT

LS 7226

BILL NUMBER: HB 1560

NOTE PREPARED: Jan 19, 2015

BILL AMENDED:

SUBJECT: PERF Military Service Credit.

FIRST AUTHOR: Rep. Porter

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☒ FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that, after June 30, 2015, an active member of the Public Employees' Retirement Fund is entitled to receive, under certain conditions, service credit for the member's active duty service in the armed forces of the United States. It provides that the maximum amount of service credit that may be granted is six years.

Effective Date: July 1, 2015.

Explanation of State Expenditures: The impact on the state's portion of PERF would depend on the number of members who might qualify for the credit.

Based on the June 30, 2014, actuarial valuation, the state's normal cost for each year of service for members in PERF was about \$1,900. This means that one year of service credit would, on average, cost approximately \$1,900. Normal cost is defined as the cost of providing retirement benefits for services performed by today's active members.

For each 1% of the active members of PERF who would qualify and apply for six years of service credit, the additional annual cost would be roughly \$4.9 M. (1% represents about 428 members.)

It is likely that more than 1% of state PERF active members will take advantage of the bill. There is not data available from INPRS on the number of active PERF members who are veterans. LSA utilized U.S. Census data as well as data from the U.S. Department of Veterans Affairs and estimates that as much as 8% of the population in the state between ages 20 and 70 may be veterans. Additionally, while the state does not have data on how many state employees are veterans (disclosure of veteran status is not compulsory), veteran

applicants are provided preference (in some instances) during the hiring process, and military service is credited in some layoff and recall situations. Therefore, it is reasonable to conclude that veteran status among state employees is high.

For this estimate, LSA believes it is reasonable to assume that 5% of active PERF members may be veterans. Therefore, based on this assumption, the total additional cost for state PERF is estimated to be \$24.5 M. An actuarial analysis would be required for a more precise estimate.

State PERF is actuarially prefunded through employer contributions. PERF employer contribution rates are 11.2% of payroll in FY 2015. The addition of military service credit would increase the actuarial liability of PERF, which must be fully funded over a time period determined by the Indiana Public Retirement System (INPRS) board.

Explanation of State Revenues:

Explanation of Local Expenditures: The impact on the local portion of PERF would depend on the number of members who might qualify for the credit.

Based on the June 30, 2014, actuarial valuation, the normal cost for each year of service for members in local PERF was about \$2,030. This means that one year of service credit would, on average, cost approximately \$1,900. For each 1% of the active members of PERF who would qualify and apply for six years of service credit, the additional annual cost would be roughly \$11.5 M. (1% represents about 947 members.)

For this estimate, LSA believes it is reasonable to assume that 5% of active PERF members may be veterans. Therefore, based on this assumption, the total additional cost for state PERF is estimated to be \$57.7 M. An actuarial analysis would be required for a more precise estimate.

Local PERF is actuarially prefunded through employer contributions. PERF employer contribution rates are 11.2% of payroll in FY 2015. The addition of military service credit would increase the actuarial liability of PERF, which must be fully funded over a time period determined by the Indiana Public Retirement System (INPRS) board.

Explanation of Local Revenues:

State Agencies Affected: INPRS, All.

Local Agencies Affected: All.

Information Sources: 2014 PERF Actuarial Valuation (<http://www.in.gov/inprs/actuarialvaluation.htm>); STATS Indiana Population data, U.S. Department of Veterans Affairs data, Tony Green, agreen@inprs.in.gov; Keith Beesley, Indiana State Personnel Department, kbeesley@spd.in.gov.

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